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The Philippines: A Stout Market With Room To Grow

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The Philippine economy expanded by 6.1 percent in 2004, not only continuing the trend of gains in recent years, but also posting its best annual growth in 15 years. The expansion reflects the resilience of the Philippines' service sector, gains in industrial output and higher exports. However, an improved and sustained growth strategy will be needed to make further progress in alleviating the persistent poverty resulting from the country's rapid population growth and unequal income distribution.

Uneven Political and Economic Terrain

The Philippines is a vibrant, raucous democracy. Yet the country does face substantial challenges, including: the need for progress on key economic and fiscal legislation; a large national debt; pressures from Muslim separatists in the south; and threats from armed communist insurgencies. The Philippine government is pursuing a strategy to improve infrastructure, strengthen tax collection to bolster government revenues, foster further deregulation and privatization, enhance the viability of the financial system and increase trade integration with the region.

Philippine demand for imported food products will likely keep rising in the medium term, fueled by retail expansion and efficiency gains; rising popularity of fast-food restaurants; a growing middle class; increased demand for convenience; and the common perception that imports equal high-quality products.

Temperate Trade Climate

The Philippines is a robust, dynamic, growing market for foods, beverages and the ingredients used to make them. Its imports of consumer-oriented, high-value products exceed $1 billion annually.

Rising demand for processed foods and beverages is driven by a large population (84 million growing by 2.3 percent per year); a cultural propensity for frequent snacking; and more women working outside the home, increasing the need for convenience foods. With persons under 30 years of age comprising 64 percent of the population, the Philippines is a youth-oriented food market, boosting demand for new and trendy products in attractive packaging.

In calendar 2004, the Philippines ranked as 15th-largest export market for U.S. consumer-oriented products worldwide, and the largest in Southeast Asia.

There is strong interest in U.S. culture and trends due largely to the two nations' long history of close relations, bolstered by a large Filipino-American community that maintains ties to the Philippines. This translates into a preference for U.S. food products, which are regarded favorably for their high quality and consistency. However, Filipinos are very price sensitive and insist on value for money, meaning U.S. products must stay price competitive.

Consumers' inclination to eat about five meals a day and snack frequently will remain an indelible part of Philippine diet and culture. Snacks therefore represent a significant market for U.S. products — including processed snack foods for supermarkets and convenience stores, and raw ingredients for local bakeries and other food processing outlets. The growing trend toward healthier eating should increase opportunities for U.S. fruits, vegetables, dairy goods, soy products, dried fruits and nuts.

Competition Abounds

But while U.S. products once dominated imports in Philippine supermarkets, food processing facilities and restaurants, competition in the market has greatly intensified. Key competitors include Australia, New Zealand, the EU, Canada and the Philippines' fellow members of ASEAN (the Association of Southeast Asian Nations).

In addition, China is aggressively gaining market share in the Philippines. This is especially true in the fresh fruit sector, where Chinese products — known for lower prices and improved quality — have largely displaced Washington apples and, increasingly, California table grapes. Moreover, China's ongoing policy of establishing free trade agreements with ASEAN countries could further threaten U.S. exports to the Philippines.

Channeling Distribution

Distribution has improved in recent years, due mostly to the 2000 retail trade liberalization law. The legislation, which allows foreign retailers to operate independently in the Philippines, has fostered growth of large supermarkets that offer a wider range of imported foods. To counter competition from multi-national stores such as Makro and PriceSmart, domestic supermarket chains are modernizing, expanding and broadening the brands they carry, often via direct importation. While their efforts initially focused on the Manila area, all major chains are now expanding into the large provincial cities. The lack of an efficient distribution system in these places, however, remains a significant constraint — especially for perishable items requiring a modern cold chain.

Getting an Edge in the Market

Philippine businessmen highly value interpersonal relations, which help to establish trust between potential business partners. U.S. exporters should maintain close contact and make regular visits to the Philippines to keep up with developments and to affirm their support to the Philippine agent/distributor and to customers. Exporters also should assist in marketing and promotional efforts, such as advertisements.

Philippine traders handle most food imports. Some maintain buying offices on the U.S. West Coast. They commonly use the services of a U.S. consolidator or wholesaler that can fulfill their need for a wide range of products. The Philippine importer then either distributes directly to retailers and food service entities or through local wholesalers.

U.S. exporters are encouraged to forge exclusive distributorships, but may find it necessary to work with more than one importer to cover various sectors. Parallel importation of well-known brands is prevalent, since the products can sometimes be accessed by other traders in the U.S. market at a discount; thus, both the U.S. exporter and designated importer may find it difficult to enforce exclusive distributorship of the product.

U.S. exporters are also advised to require payment of goods via letter of credit, especially for initial transactions. Credit terms may be extended to the importer after a thorough background and credit investigation has been conducted and payment habits have been established.

Products should be packed to withstand extreme heat and humidity. Deficiencies in systematic and mechanical handling of products should also be taken into consideration. Products in smaller, more affordable packages are preferable for the consumer market.

Exporters also should be willing to reformulate products to suit local tastes. Philippine consumers like cheese and barbecue flavors; but they also tend to prefer foods and beverages, such as sauces, juices and even processed meat products, that taste sweet.

Import Regulation

The Philippines has a relatively open trading system and some of the lowest applied tariffs in Asia. Tariff exemptions are provided for a wide variety of imports generally used as inputs. There are no nontariff restrictions on imports of agricultural and food products except rice.

Tariff rates for most consumer-oriented products now range from 3 to 15 percent. However, imports of agricultural products

U.S. Export Highlights in Calendar 2004

Overall, U.S. exports to the Philippines grew 10 percent to $710.58 million, with wheat still accounting for nearly one-third of total exports. The Philippines is an important market for a wide variety of U.S. agricultural products. In calendar 2004, it was the 16th-largest export market for U.S. agricultural products, 13th if the EU (European Union) is considered a single market. It was the 14th-largest market for U.S. consumer-oriented agricultural exports (11th with the EU as a single market).

Bulk Commodities: Significant increases occurred for U.S. soybeans (with sales up 24 percent), cotton (52 percent) and edible dry beans (16 percent).

Consumer-Oriented Products: The Philippines remained the largest market for U.S. consumer-oriented agricultural products in Southeast Asia. U.S. exports in the category climbed 34 percent to $217.56 million. U.S. sales of dairy products ($68.74 million), pet foods ($8.2 million) and wines and beer ($5.9 million) reached record highs.

Beef: In January 2004, the Philippines became the first country to reopen its market to U.S. beef after the discovery of bovine spongiform encephalopathy in a U.S. cow in late 2003. This resulted in a 40-percent gain in U.S. exports to $6.6 million in 2004. (From June to early August 2005, the Philippines banned U.S. beef and related products upon confirmation of a second U.S. case of the disease.)

Wines: The Philippines remains the largest market in Southeast Asia for U.S. wines having surpassed Singapore in 2002 -- with annual growth averaging more than 30 percent in each of the last four years.

Pet Foods: The Philippines remains Southeast Asia's largest market for U.S. pet foods, with double-digit growth since 2001.

Snacks: The Philippines is a major market for U.S. processed snack foods, and a rapidly growing one for U.S. raw ingredients for local snack food manufacturers.

deemed sensitive, and for which MAVs (minimum access volumes) were set, face significantly higher tariff rates. Poultry meat, pork, fresh potatoes and coffee are some of the products in this category. MAV allocations, which have discounted tariffs, are awarded annually to eligible Philippine importers.

Philippine food regulations and standards generally follow those of the U.S. Food and Drug Administration for allowed additives, good manufacturing practices and suitable packaging materials. Compliance with U.S. regulations for packaged foods, particularly for labeling, will almost always assure compliance with Philippine regulations.

Import permits are required for shipments of fresh fruits and vegetables, meats and poultry, including processed meat products. Quarantine clearances that serve as import licenses are required for fresh fruits and vegetables, fish, meats and related products. In addition, meats, fish and produce must be received by a registered importer.

Most other food-related imports do not have licensing requirements, except when permits are required for commodities entering duty-free or through in-quota tariffs, such as live swine, frozen pork and poultry, fresh and chilled potatoes, corn, coffee beans and coffee extract.

All food products must be registered with the Philippine Bureau of Food and Drugs. Only a Philippine entity may undertake registration of imports. But the exporter must provide the required documentation and product samples.

Documentation

The Philippines requires the following documents for all import shipments:

- commercial invoice
- bill of lading or air waybill for air shipments
- certificate of origin (if requested)
- packing list
- special certificates required due to the nature of goods being shipped or by the terms of the transaction, such as a Philippine Bureau of Food and Drugs license, commercial invoice of returned Philippine goods or supplemental declaration on valuation

Detailing Retailing

As is the case in many countries, food retailing in the Philippines is rapidly modernizing and expanding. National upscale supermarket chains are attracting customers with large modern stores that increasingly displace traditional small chains and neighborhood *sari-sari* (mom-‘n’-pop) stores. While focused primarily on urban markets in Manila and Cebu, national chains have begun to enter smaller local markets, including Bacolod, Iloilo, Cagayan de Oro and Davao. The average number of supermarket outlets per nationwide chain rose from 76 in 2000 to 140 by 2004.

Supermarket modernization presents a positive development for U.S. foods and beverages. Modern chains offer improved cold chain and distribution systems, market a wider variety of products and rely more on imports than have traditional retailers. Given their improved infrastructure, growth prospects and customer demographics, modern supermarket chains offer the best overall platform for U.S. high-value foods and beverages in the Philippines. The market is dominated by domestic chains such as Robinson’s Big R, Rustan and Shopwise Supercenter; Makro and PriceSmart are currently the only foreign-owned supermarkets in the Philippines.

Convenience stores are on the rise, led by foreign chains like 7-Eleven, MiniStop, Shell Select and Caltex StarMart. Their range of imports is only slightly better than traditional small stores, but there is good growth potential, particularly for snacks, beverages, and microwaveable and other ready-to-eat meals. Expansion is being pushed by the bullish call center industry, which provides out-sourced services such as help desks for computer companies, transcription for the health industry and accounting. Philippine call centers have grown from 10,000 seats in 2002 to 40,000 seats to date, operating around the clock and spurring strong demand for foods and beverages available at 24-hour convenience stores.

... And Speaking of Convenience

Consumers’ increasing demand for convenience is spurring expansion in the Philippine food service sector, too. Higher consumer standards and concerns about food safety are driving Filipinos toward dining in restaurants and away from traditional food sellers. The predominantly young Philippine population heavily favors dining in fast-food, casual and family restaurants.

Food service sales, valued at approximately $2.5 billion in calendar 2004, have increased 15-20 percent per year in the past decade. Eating out accounts for about 12 percent of the average household’s food budget, up from less than 9 percent in the mid-1990s.

The number of full-service restaurants is also rising; nearly all recent growth in the segment has occurred in the fashionable shopping and dining areas of Manila. Full-service restaurants are a good way to introduce high-quality ingredients to the Philippines. With their focus on quality and exciting new menu ideas to attract consumers, these restaurants bring in significant amounts of imports like meats, wines and condiments. But as in other segments, competition is keen.

Upscale restaurants and cafés (known as the "casual dining" market) in metropolitan Manila afford varied opportunities to U.S. foods and beverages. Restaurants in five-star hotels and upscale malls are important outlets, along with popular Western-style chains. Burgoo, TGI Friday's®, Tony Roma's, Outback Steakhouse®, Country Waffle, Hard Rock Cafe and Pancake House all use imported ingredients, including meats, wines, seafood, dairy products, sauces and fresh produce. While restaurant managers are price-sensitive, especially when considering new ingredients, they must weigh this consideration against their need to present new menu items to attract the notoriously fickle upscale Philippine consumer.

Nevertheless, fast-food restaurants dominate the food service sector. Popular chains, led by Jollibee, McDonald's, Chowking, Tropical Hut and Goldilocks, offer attractive menus and fiercely competitive prices, with full meals available for as little as 75 cents.

U.S. franchises, which normally require standard or U.S.-approved food ingredients, have increased the volume and variety of imports. Frozen potato fries are the single largest U.S. import in this segment, but demand for other products, including frozen poultry products, sauces, condiments, and fresh and processed fruits and vegetables, is growing.

Advertising and promotions play major roles in capturing food service market share. All-you-can-eat or buffet offerings, and promotions such as discounted set meals and premiums like toys, effectively provide customers with a sense of obtaining "value for their money."

Ingredients of Opportunity

Food and beverage production comprises 40 percent of total Philippine manufacturing output. A small number of large domestic companies (such as San Miguel, RFM and Universal Robina) and multinationals (led by Nestlé and Del Monte) dominate the market.

Philippine manufacturers continue to face the following challenges: high electricity and increasing labor and production costs, inconsistent domestic supplies, outdated equipment and facilities, gaps in the cold chain and sometimes less expensive finished products from neighboring ASEAN countries. Domestic agricultural supplies are often hampered by inefficient post-harvest and storage facilities and costly farm-to-market transport, which often drive prices higher than those of the world market. The large corporations are attempting to overcome these challenges by investing in new technology, buying out smaller competitors, keeping profit margins low to remain competitive and developing new products with intensive advertising and marketing support. Other processors focus on niche marketing or maintaining current output.

The domestic supply situation means manufacturers must continue to look abroad for many inputs. Major food ingredient imports include: wheat; dairy products, such as milk, cheese powders and whey; processed fruits and vegetables; dried fruits and nuts; and beef and related products. Expensive specialty ingredients, such as exotic dried fruits and nuts, processed egg products, many grains and organics, are still confined to small niches due to the persistent and pervasive price sensitivity of the Philippine food and beverage market.

Best Prospects

Below is a list of U.S. products with the most favorable sales prospects:

- natural and health foods
- fresh fruits and vegetables
- juices
- tree nuts
- dried fruits
- baking ingredients
- beef
- poultry products
- seafood
- wines
- cheeses
- food processing ingredients
- pet foods

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